

VZCZCXYZ0031  
RR RUEHWEB

DE RUEHMO #3002/01 3541501  
ZNR UUUUU ZZH  
R 201501Z DEC 06  
FM AMEMBASSY MOSCOW  
TO RUEHC/SECSTATE WASHDC 5972  
INFO RUEATRS/DEPT OF TREASURY WASHDC  
RHEHNSC/NSC WASHDC

UNCLAS MOSCOW 013002

SIPDIS

SENSITIVE  
SIPDIS

STATE FOR EUR/RUS  
TREASURY FOR BAKER/GAERTNER  
NSC FOR MCKIBBEN

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [EINV](#) [RS](#)  
SUBJECT: RUSSIAN DEVELOPMENT "BANK" TAKES SHAPE

#### Summary

1. (SBU) At a meeting of cabinet ministers on December 14, Economic Development and Trade Minister German Gref delivered a presentation on the prospective scope and functions of a new Russian Development Bank (RDB). Gref's proposal would consolidate the Foreign Economic Activity Bank of the USSR (Vneshekonombank, VEB), the existing Russian Development Bank, and the Russian Export-Import Bank into a unified government development-financing structure. The new institution would have charter capital totaling USD 70 billion and would provide long-term financing for infrastructure projects and high-tech, export-oriented industries. The ministers approved Gref's concept and Finance Minister Aleksey Kudrin's suggestion that the Prime Minister serve as the head of the RDB's Oversight Council. Prime Minister Mikhail Fradkov directed the ministers to develop a draft bill on the bank before the end of the year. End Summary.

#### Russian Development Bank: Long-Term Focus

2. (SBU) Addressing a cabinet ministers' meeting on December 14, Economic Development and Trade Minister German Gref outlined the prospective objectives and functions of the proposed Russian Development Bank (RDB). He explained that the RDB would emerge from the consolidation of the Foreign Economic Activity Bank of the USSR (Vneshekonombank, VEB), the existing Russian Development Bank, and the Russian Export-Import Bank. Gref emphasized that the government should foster transparency and self-sufficiency in RDB operations. The consolidated structure would start operations from a capital base of USD 70 billion with the goals of supporting economic development, establishing new market sectors, and eliminating infrastructure imbalances among Russia's regions. The RDB's main lines of business would be infrastructure and social projects, development and export of high-tech products, advanced technology imports, research and development support, and small business financing.

3. (SBU) Gref observed that the RDB, which President Putin first advocated in January, would complement existing government-supported institutions such as the Agency for Home Mortgage Lending, the Federal Agency for Management of Special Economic Zones, and the Investment Fund. He also told cabinet members that the proposed move was in keeping with other countries' experience in establishing government finance institutions. He expressed hope that the RDB would

reproduce the successes of Ex-Im Bank in the U.S., the Japanese Development Bank, and Brazil's Socio-Economic Development Bank. Gref argued that the RDB, as a government development institution, should focus on long-term project finance. He suggested that partnership with the private sector would not only reduce some of the government's burden in supporting priority sectors, but also raise the profitability of longer-term endeavors.

#### Not a Traditional Bank

14. (SBU) Under Gref's plan, the RDB would not serve as a bank in the traditional sense of the word since it would not operate under a license from the Central Bank. The RDB would neither make loans to individuals nor trade in securities, and would require special legislation to be organized as a government corporation. Gref suggested that the legislation's general guidelines for the RDB should be to diversify the economy, improve infrastructure, and create conditions for long-term economic development. The government would review the RDB's performance annually and adjust priority areas as necessary. The government would provide general oversight, and the RDB would be subject to independent audits.

#### RDB Concept Ultimately Approved

15. (SBU) There was apparently some debate. Deputy Prime Minister Medvedev recommended calling the institution the "Russian Development Fund" or "Russian Development Corporation" since it would not technically operate as a bank. Justice Minister Ustinov offered general objections to Gref's plan, noting that many laws would need to be passed for the RDB to function as outlined. In an apparent effort to forge consensus among the ministers, Finance Minister Kudrin urged that the government appoint the RDB's leadership and suggested the Prime Minister serve as the head of the Oversight Council. The ministers unanimously approved the RDB concept, and Prime Minister Fradkov directed the ministers to develop draft legislation that could be submitted to the Duma before the end of the year.

#### Comment

16. (SBU) The idea of a Russian Development Bank had been kicking around for years prior to Putin's January nudge. Gref's presentation fell short of the mark that Putin had set earlier this year, namely that the government's draft bill on the Russian Development Bank be presented to the Duma by December 15, but it advanced the issue nevertheless. Disagreements between Gref and Kudrin on the prospective bank's functions slowed the process this year, but now these appear to be behind them. The establishment of this bank would be a concrete measure in the emerging unified policy that Gref has often articulated to promote genuine diversification of the Russian economy, including through exports. The proposed legislation creating the RDB, however, is likely to be very general in nature, given the two-week deadline and Prime Minister's reported frustration at "waiting months for us to give birth to this bank." End

Comment.

RUSSELL